

Status Report
Streamlined Installment Payment Agreement/Automatic Debit Program

Business Taxes Committee Meeting
February 23, 1999

Topic: Whether to pilot and develop a program to allow streamlined approval of Installment Payment Agreements (IPA's) on low risk sales tax liabilities while utilizing an automatic debit process to increase the overall completion rate of all agreements.

This subject was previously addressed by the Board in a Taxpayer Bill of Rights Hearing on February 24, 1998.

Background: The Board strives to allow fair treatment of tax debtors by allowing IPA's when there is not an ability to pay a sales tax liability in full. The Internal Revenue Service (IRS) and the Franchise Tax Board (FTB) have implemented various legislative and policy changes to facilitate uniform and fair treatment of tax debtors, and the Board has modeled its IPA program after the IRS and FTB.

In August 1998, staff released Compliance Policy and Procedure Manual (CPPM) section 707.000 et. seq., *Installment Payment Proposal Guidelines*. These public guidelines are similar to those used by IRS and FTB, and include guidelines for a wide array of living expenses. Expense guidelines are designed to be adjustable in qualified situations, and are stratified based on income levels and county of residence. Included in these guidelines is a mandate that all IPA's be documented in writing with the tax debtor.

Effective January 1, 1999, Revenue and Taxation Code section 6832 was added to codify the Board's authority to enter into IPA's with tax debtors. This section also requires the Board to notify a tax debtor in writing 15 days prior to terminating an IPA, stating the cause, and allowing for an administrative hearing. Policy and form letters have been released to implement this change.

Board staff now proposes to mirror the IRS and FTB compliance programs involving streamlined approval of selected low-risk IPA's. The IRS and FTB have found that the effective management of their accounts receivable can be accomplished by allowing easy qualification of IPA's on low-balance liabilities that meet certain low risk criteria. These qualified tax debtors with low-dollar balances are virtually assured an IPA of a term of less than three years without the extensive review of financial information associated with larger liabilities.

In conjunction with this streamlined IPA program, the FTB asks every tax debtor that enters into an IPA to set up the monthly payments through an automatic debit arrangement. The tax debtor signs an agreement, providing a bank account number and a designated day for an automatic withdrawal to occur.

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Several industry groups, including utility companies, loan companies and health clubs, have utilized automatic debit, and it has consistently lowered default rates. Additionally, FTB has found that tax debtors appreciate the convenience of not writing and sending a monthly check.

Current Status: Staff will proceed with a process to allow streamlined approval of low-risk IPA's. Compliance staff will be surveyed to establish liberal criteria for streamlined approval, and these criteria will be tested in a pilot program with three district offices. The results of this pilot will be used to judge tax debtor response and overall effectiveness, while adjusting the criteria before statewide implementation.

Staff will develop an automatic debit form and mechanical process, and test the process in the same pilot program using the same three district offices as mentioned above. Since it is believed that the automatic debit policy will improve IPA success rates, the focus of the pilot will be on refining the mechanical process.

A detailed workplan (Exhibit 1) is attached.

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Program Planning Division

Current as of: February 10, 1999

ACTION PLAN

STREAMLINED INSTALLMENT PAYMENT AGREEMENT/AUTOMATIC DEBIT PROGRAM SALES AND USE TAX DEPARTMENT

The proposed pilots and subsequent statewide implementation of the Sales and Use Tax Department recommendations to streamline the application and approval of low-risk Installment Payment Agreements (IPA's), and to request an automatic debit on all IPA's is scheduled to be accomplished in two stages as follows:

<u>Action</u>	<u>Begin</u>	<u>Complete</u>
Streamlined Installment Payment Agreements:		
Determine liberal, acceptable criteria for the streamlined application and approval of low-risk IPA's.	3/1/99	3/31/99
Test the effectiveness of the streamlined application in a pilot program, and adjust the criteria to optimal levels for positive taxpayer/revenue impact prior to statewide implementation.	4/1/99	9/30/99
Develop statewide policy for streamlined application of IPA's. Release to staff and public in the Compliance Policy and Procedure Manual (CPPM).	4/1/99	9/30/99
Publish an article in the December Tax Information Bulletin to inform tax debtors of the availability of streamlined IPA's.	11/1/99	11/30/99
Automatic Debit Program:		
Design, code, test and implement the programming steps necessary to allow tax debtors to authorize an automatic debit from their bank account.	6/1/99*	3/31/2000
Test the automatic debit programming in a pilot program with three district offices. Make adjustments accordingly.	4/1/2000	7/31/2000
Develop statewide policy for the automatic debit process and release to staff and public in the CPPM.	8/1/2000	10/29/2000
Publish an article in the December Tax Information Bulletin to inform tax debtors of the automatic debit program.	11/1/2000	11/30/2000